

Message Text

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SUBJ: QUEBEC MODIFIES INFLATION CONTROL PROGRAM

1. QUEBEC FINANCE MINISTER JACQUE PARIZEAU ANNOUNCED JANUARY 14 THAT PQ GOVERNMENT WOULD UPHOLD WAGE SETTLEMENTS AFFECTING PUBLIC SECTOR AND CONSTRUCTION WORKERS, WHICH WERE APPROVED UNDER BOURASSA GOVERNMENT, EVEN THOUGH SUCH SETTLEMENTS WERE JUDGED BY QUEBEC'S INFLATION CONTROL COMMISSION TO EXCEED ANTI-INFLATION GUIDELINES. GOVERNMENT'S DECISION IMMEDIATELY AFFECTS ABOUT 80 O/O OF THE 580,000 WORKERS WHO COME UNDER COMMISSION'S JURISDICTION. CHAIRMAN OF QUEBEC'S ANTI-INFLATION COMMISSION HAS ESTIMATED THAT WAGES PAID IN EXCESS OF ALLOWABLE LIMITS WOULD APPROXIMATE DOLS 1 BILLION OVER NEXT FOUR YEARS.

2. GOVERNMENT'S DECISION HAS EFFECT OF ABOLISHING FORMAL CONTROL PROGRAM OVER PUBLIC EMPLOYEES IN QUEBEC, SINCE GOVERNMENT HAS ALSO ANNOUNCED THAT REMAINING 20 O/O OF PUBLIC EMPLOYEES COMING UNDER PROVINCIAL CONTROL WOULD ALSO BE EXEMPT, AS ANY ARRANGEMENT EXEMPTING 80 O/O OF EMPLOYEES AND NOT OTHERS WOULD BE UNFAIR. MOST WORKERS IN LATTER UNCLASSIFIED

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20 O/O CATEGORY ARE EMPLOYEES IN MUNICIPAL SECTOR.

3. QUEBEC'S ACTION WAS POSSIBLE SINCE QUEBEC WAS ONLY PROVINCE, WITH EXCEPTION OF SASKATCHEWAN, TO SET UP ITS OWN ANTI-INFLATION COMMISSION TO ADMINISTER FEDERAL PAY GUIDELINES OVER ITS OWN PUBLIC SECTOR EMPLOYEES, AND IN CASE OF QUEBEC, OVER CONSTRUCTION LABORERS AS WELL.

PRIVATE SECTOR EMPLOYEES, HOWEVER, WERE LEFT UNDER SUPERVISION OF FEDERAL ANTI-INFLATION BOARD. AS RESULT OF THIS DECISION, QUEBEC NOW FACED WITH ANOMOLOUS SITUATION IN WHICH PUBLIC SECTOR EMPLOYEES ARE EFFECTIVELY EXEMPT FOR AIB CONTROLS, WHILE PRIVATE SECTOR EMPLOYEES REMAIN SUBJECT TO SUCH CONTROLS. SITUATION IS FURTHER CONFUSED SINCE INSTITUTION OF ANTI-INFLATION COMMISSION WILL APPARENTLY BE PRESERVED, AT LEAST FOR TIME BEING, ALTHOUGH STRIPPED OF ITS ENFORCEMENT POWERS.

4. COMMENT: PQ GOVERNMENT HAS SAID ACTION WAS NECESSARY SINCE OUTGOING BOURASSA GOVERNMENT HAD AGREED TO SEVERAL SETTLEMENTS WHICH HAD VIOLATED ITS OWN GUIDELINES, LEAVING PQ GOVERNMENT WITH NO REAL ALTERNATIVE BUT TO GIVE ITS BLESSING TO SETTLEMENTS. REVERSAL OF SETTLEMENTS, IT WAS FEARED, WOULD HAVE FACED NEW PQ GOVERNMENT WITH DIFFICULT LABOR SITUATION AND POSSIBILITY OF EARLY LABOR TURMOIL. REACTION IN MONTREAL PRESS, WHILE INDICATING CONCERN OVER ECONOMIC IMPACT OF DECISION, HAS TENDED TO SUPPORT PQ POSITION THAT IT REALLY HAD NO CHOICE IN MATTER. (MONTREAL STAR PROTESTED, HOWEVER, THAT AFTER 2 MONTHS IN POWER PQ SHOULD BE EXPECTED TO ACCEPT ITS OWN RESPONSIBILITIES). DECISION WILL UNDOUBTEDLY CAUSE SEVERE PROBLEMS FOR OTTAWA, AS UNPOPULAR CONTROLS WILL BE MUCH HARDER TO MAINTAIN IN VIEW OF QUEBEC'S DEFECTION. SOME MODIFICATION IN PROGRAM WILL BE NECESSARY, AS PRESENT ARRANGEMENT DIFFERENTIATING BETWEEN PUBLIC AND PRIVATE SECTOR EMPLOYEES IN QUEBEC CANNOT LONG SURVIVE. UNDER SUCH CIRCUMSTANCES, PROVINCIAL GOVERNMENT COULD CHOOSE TO ACT BY AMENDING, UNCLASSIFIED

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OR ABROGATING, ITS AGREEMENT TO PARTICIPATE IN FEDERAL PROGRAM, WITH RESPECT TO PRIVATE SECTOR EMPLOYEES, WHEN FEDERAL-PROVINCIAL DISCUSSIONS ON CONTINUANCE OF PROGRAM ARE HELD JANUARY 25. IN THIS CONNECTION, MINISTER OF FINANCE PARIZEAU HAS SAID GOVERNMENT WILL MODIFY AIB ACT DURING NEXT SESSION, WHEN IT KNOWS WHAT FEDERAL GOVERNMENT PLANS TO DO WITH NATIONAL ANTI-INFLATION PROGRAM.

5. WHILE PQ HAS ANNOUNCED IT IS ALREADY WORKING ON NEW MECHANISMS, BASED ON CONSULTATION, SURVEILLANCE, AND CONCERTED ACTION TO CONTROL INFLATION, ABILITY OF GOVERNMENT TO ACT IN EFFECTIVE MANNER WITHOUT LEVERAGE PROVIDED BY ASSOCIATION WITH FEDERAL PROGRAM IS QUESTIONABLE. AND GIVEN RECORD OF LABOR MILITANCE AND DISPUTES IN QUEBEC, IT IS UNREASONABLE TO ASSUME THAT DEMANDS BY PRIVATE SECTOR EMPLOYEES, WHO WILL NOW FEEL THEY ARE BEARING UNFAIR SHARE OF ANTI-INFLATION BURDEN, CAN BE RESTRAINED. WITH PSYCHOLOGICAL FACTOR EXTREMELY

IMPORTANT IN QUEBEC TODAY, GOVERNMENT'S ACTION CAN ONLY BE SEEN AS CONTRIBUTING TO CONCERN AND UNCERTAINTY ABOUT STATE OF QUEBEC'S ECONOMY, PARTICULARLY SINCE DECISION WILL BE VIEWED AS HAVING EFFECT OF REMOVING CONTROLS ON THE SECTOR DEEMED MOST RESPONSIBLE FOR INFLATIONARY PRESSURES IN PAST. AS ONE ECONOMIST PUT IT, PQ MAY HAVE BEEN BOXED IN WITH NO ALTERNATIVES, BUT THEY WERE "DAMN STUPID" IN PUBLIC RELATIONS SENSE, AS MANNER IN WHICH DECISION ANNOUNCED, WITH NO ATTENTION TO FACTOR OF PUBLIC CONFIDENCE, CAN ONLY EXACERBATE QUEBEC'S PROBLEMS.
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